REPORT OF
FINANCIAL EXAMINATION

LUMBERMEN'S UNDERWRITING ALLIANCE

As Of
December 31, 2004

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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December 9, 2005
Boca Raton, Florida

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Lumbermen's Underwriting Alliance

hereinafter referred to as such or as the "Company" or the "Exchange." The administrative office is located at 2501 North Military Trail, Boca Raton, Florida 33431, telephone number (561) 994-1900. This examination began on May 9, 2005, and concluded on December 9, 2005.

SCOPE OF EXAMINATION

Period Covered

The prior financial examination of Lumbermen's Underwriting Alliance was made as of December 31, 2001.

The current full scope financial examination covers the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC (National Association of Insurance Commissioners) with no other zones participating.

This examination also included material transactions and/or events occurring after December 31, 2004.

Procedures

This examination was conducted using the guidelines set forth in the *Financial Condition Examiners Handbook of the NAIC*, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The work papers of the Company's independent auditor, Ernst & Young, LLP, were made available to the examiners and used in the course of the examination. Standard examination procedures were modified as deemed appropriate under the circumstances. The examiners retained a consulting actuary to ascertain the adequacy of reserves for losses and loss adjustment expenses.

Comments – Previous Examination

There was only one comment in the previous examination report dated December 31, 2001, and it is listed below with the subsequent response or action taken by the Company concerning such comment.

Comment: Accounts and Records

The Company should formally document detailed recovery procedures in its contingency plan and periodically test its arrangements for an alternate processing site, including the remote restoration of systems from backup media. Without periodic testing, the plan has diminished valued because of the increased likelihood of unforeseen problems.

Company Response:

The Company takes very seriously the need for appropriate and adequate disaster recovery and contingency plans. There currently is a written, practical business continuity plan that outlines emergency procedures that are to be followed. As part of regular operations all data is backed up and stored offsite in a certified facility. The Company recently adopted a "hot site" disaster recovery plan. Under a contractual agreement, this approach utilizes facilities of a service provider in Colorado who has replacement computer hardware already installed with a base software configuration. Using the "hot site," it is felt that financially significant systems can be restored in a couple of days. In addition to the "hot-site," the Company continues to maintain a "cold site" disaster recovery plan. A contractual arrangement exists with a vendor to provide computer hardware at an alternative site (Atlanta), if and when necessary. This facility could be utilized if the allowed time at the "hot site" is exceeded.

Although the plan is dynamic and will therefore undergo continual updates, there is always room for improvement. There is every expectation that the entire area of disaster recovery and contingency planning will continue to improve with the commitment and dedication it deserves.

Current Findings:

The Company has developed detailed restoration procedures for all platforms, but they have not regularly tested the restoration of all their financially significant platforms. The Company

indicates that they performed restoration tests for the mainframe in January of 2006 but there is not indication that they tested the client server environment that supports the property business.

HISTORY

General

Lumbermen's Underwriting Alliance is a reciprocal inter-insurance exchange that was organized under the laws of the state of Missouri and commenced business in Kansas City, Missouri on January 10, 1905. The Company was organized primarily to allow the owners of lumber and woodworking plants to exchange insurance with each other. Currently the Company operates under Sections 379.650 to 379.800 RSMo (Reciprocal or Interinsurance Exchanges).

Capital Stock

The Company is an unincorporated reciprocal interinsurance exchange and therefore is not authorized to issue capital stock.

Dividends (Savings)

The Company pays savings to its subscribers. Total savings paid since 1976 are as follows:

YEAR	AMOUNT
1976 - 1989	$ 106,264,619
1990	5,694,303
1991	1,706,565
1992	2,111,511
1993	1,430,465
1994	1,187,171
1995	1,342,666
1996	1,205,717
1997	1,408,542
1998	1,530,133
1999	861,841
2000	1,711,332
2001	2,857,557
2002	3,212,506
2003	2,669,586
2004	837,076
TOTAL	**$ 136,031,590**

In addition the Company has paid $353,227 of savings through June 30, 2005.

Management

There is no board of directors for Lumbermen's Underwriting Alliance. The affairs and operations of the Company are managed by an attorney-in-fact, U. S. Epperson Underwriting Company, in accordance with the terms and conditions of the subscriber agreement.

At December 31, 2004, U. S. Epperson Underwriting Company had five directors as mandated by the articles of incorporation and bylaws as follows:

Name	**Business Affiliation**
Christine E. Lynn Boca Raton, Florida	Chairman of the Board of Directors and Chief Executive Officer
Ronald A. Blake Boca Raton, Florida	Vice Chairman of the Board of Directors
Jan Carlsson Boca Raton, Florida	Assistant Chief Executive Officer, Executive Assistant to the Chairman and Chief Executive Officer
Edward H. Mosher, Jr. Boca Raton, Florida	President and Chief Operating Officer
Mindy P. Appel Coral Springs, Florida	Vice President, General Counsel and Secretary

Article V of the bylaws lists the following executive officers and their duties: chief executive officer, president, secretary, treasurer, general counsel and such additional vice presidents including an executive vice president and assistants as the board of directors may elect.

The officers elected and serving as of December 31, 2004, are as follows:

NAME	**POSITION**
Christine E. Lynn	Chairman of the Board of Directors and Chief Executive Officer
Jan Carlsson	Assistant Chief Executive Officer, Executive Assistant to the Chairman and Chief Executive Officer
Edward H. Mosher Jr.	President and Chief Operating Officer
William J. Broich	Senior Vice President, Chief Financial Officer and Treasurer
Michael E. North	Senior Vice President – Operations
James W. Osterman	Senior Vice President – Agency Operations, Administration and Claims and Assistant Secretary
Mindy P. Appel	Vice President, General Counsel and Secretary
Angelo T. Ganguzza	Vice President – Eastern Region
James T. Trenter	Vice President – Western Region
William T. Hand	Vice President – Central Region
Maurice R. Piché	Chief Agent – Canada
Jacques Gagnon	Vice President – Canadian Region
Scott M. Poole, Jr.	Vice President – Government Affairs and Assistant Secretary
Carol A. Salamida	Vice President – Workers' Compensation Claims
Maurice A. Vialette	Assistant Vice President - Canadian Region and Assistant Chief Agent – Canada

Wilfred J. Nance	Assistant Vice President – Loss Prevention
Craig R. Smith	Assistant Vice President – Underwriting
Katherine H. Antonello	Assistant Vice President and Chief Actuary
Mathew J. Marinak	Assistant Vice President and Director of Information Technologies
Mary R. Moore	Assistant Vice President and Director – Human Resources
Robert W. Nase	Assistant Vice President and Controller

U. S. Epperson Underwriting Company also had the following committees appointed by the board of directors:

Executive
Christine E. Lynn, Chair
Jan Carlsson
Edward H. Mosher, Jr.
William J. Broich
Michael E. North
James W. Osterman
Mindy P. Appel
Ronald A. Blake

Investment
William J. Broich, Chair
Christine E. Lynn
Jan Carlsson
Edward H. Mosher, Jr.
Ronald A. Blake

Employee Benefit
Edward H. Mosher Jr., Chair
Christine E. Lynn
Jan Carlsson
William J. Broich
Mindy P. Appel
Maurice R. Piché
Mary R. Moore
Ronald A. Blake

Salary
Christine E. Lynn, Chair
Jan Carlsson
Edward H. Mosher, Jr.
Ronald A. Blake

Internal Audit
Christine E. Lynn, Chair
Jan Carlsson
Edward H. Mosher, Jr.
William J. Broich
Ronald A. Blake

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all directors, officers and exempt employees of U. S. Epperson Underwriting Company. A review of the statements for the years under examination indicated no conflicts.

Corporate Records

We reviewed the articles of incorporation and bylaws of U. S. Epperson Underwriting Company. The bylaws were last amended January 1, 2003, increasing the number of directors from three to five. The articles of incorporation were amended at the same time.

A review was made of the meetings of the executive committee of the Company, the investment committee and the advisory committee. The minutes appear to properly support and approve the major transactions and events for the period under examination.

Pursuant to section 374.205 3. (4) (Examination of insurers), the Company submitted affidavits verifying review of the prior examination report.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

On December 14, 2001, the Company issued a $20 million subordinated surplus note to Christine E. Lynn. The note pays interest at the rate of seven percent per year to be paid on June 14 and December 14 of each year. The note was approved by the Missouri Department of Insurance. Repayment of principal or any interest payments may be made only with the approval of the director of the Missouri Department of Insurance.

Interest payments of $700,000 were approved on June 6, 2002; November 25, 2002; October 31, 2003; May 10, 2004 and November 24, 2004. A principal payment of $450,000 was also approved on November 24, 2004.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Lumbermen's Underwriting Alliance is a reciprocal inter-insurance exchange. U. S. Epperson Underwriting Company is the manager and attorney-in-fact of Lumbermen's Underwriting Alliance. LIG Insurance Agency, Inc., a company affiliated with U. S. Epperson Underwriting Company, is a general agent and places various lines of coverage for various clients in the forest products industry.

It is the position of the Missouri Department of Insurance that a reciprocal is not a member of an insurance holding company system as defined by 382.010 RSMo. "Definitions," and therefore is not required to filed a Holding Company Registration Statement on Forms B and C. Lumbermen's is subject to the reporting requirements of SSAP 25 "Accounting For and Disclosures about Transactions with Affiliates and Other Related Parties," under which an attorney-in-fact of a reciprocal reporting entity is defined as a related party.

Intercompany Transactions

All subscribers of Lumbermen's Underwriting Alliance sign a subscriber's agreement, which enumerates the authority, rights, duties, responsibilities and fees of the attorney-in-fact. The subscriber agreement has been filed with and approved by the insurance departments of all states in which the Company does business.

No changes in the subscriber agreement have occurred in many years. U.S. Epperson Underwriting Company receives a 20% commission on gross written premiums and receives fees for collection, loss control, adjusting and investment. U.S. Epperson also provides Lumbermen's Underwriting Alliance with offices, facilities, equipment and employees. The fees and commission incurred for 2004 were as follows:

Management commissions	$27,983,240
Loss adjustment expenses	4,251,039
Loss control fees	5,024,654
Collection expenses	995,629
Total	$38,254,562

FIDELITY BOND AND OTHER INSURANCE

U. S. Epperson Underwriting Company, attorney-in-fact for Lumbermen's Underwriting Alliance, maintains a corporate insurance program, which includes Lumbermen's Underwriting Alliance as named insured on a financial institution bond in the amount of $5million with a $100,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

Lumbermen's Underwriting Alliance also has adequate fiduciary liability, professional liability, employer's liability, executive liability and indemnification, employment practices liability, commercial property and general liability, umbrella, commercial automobile, computer crime, extortion, international liability, underground storage tank and workers' compensation insurance coverage. Lumbermen's Underwriting Alliance is the underwriter for the property coverage.

The Company appears to be adequately protected by its insurance program.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All personnel are provided by the attorney-in-fact, U. S. Epperson Underwriting Company. The employees are provided with a benefit package, which includes group health insurance, group term life insurance, accidental death and dismemberment insurance, dental insurance, a vision plan, long term and short term disability plan, a defined benefit plan, a defined contribution 401 (k) plan and medical and dependent care flexible spending accounts. The employer funds some of the benefits fully or partially. In addition employees receive paid holidays and managed time off and may participate in continuing education.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient in par and market value to meet the $1,200,000 security deposit requirement for the state of Missouri in accordance with Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

TYPE OF SECURITY	PAR VALUE	FAIR VALUE	STATEMENT VALUE
U. S. Treasury Bond	$ 1,400,000	$ 1,437,184	$ 1,415,457

Deposits with Other States

The Company has funds on deposit with a number of other states and jurisdictions. Those funds on deposit as of December 31, 2004, were as follows:

STATE	TYPE OF SECURITY	PAR VALUE	FAIR VALUE	STATEMENT VALUE
Arizona	U.S. Treasury and Agency Notes & Bonds	$ 2,980,000	$ 3,181,203	$ 3,088,818
California	U.S. Treasury Note/Bond/Corporate	31,653,000	34,669,746	32,527,208
Delaware	U.S. Treasury Bond	100,000	107,188	102,521
Georgia	U.S. Treasury Bond	130,000	139,344	130,826
Idaho	U.S. Treasury Bond	131,000	140,416	134,118
Louisiana	U.S. Treasury Bond	70,000	75,032	70,445
Massachusetts	U.S. Treasury Note/Agency	1,725,000	1,821,003	1,782,414
Nevada	Corporate Bond	125,000	134,524	124,849
New Mexico	U.S. Treasury Bond	300,000	357,681	326,847
North Carolina	U.S. Treasury Bond	125,000	133,985	128,114
Oklahoma	U.S. Treasury Bond	300,000	357,681	331,118
Oregon	U.S. Treasury Note/Bond/Agency	1,765,000	1,893,305	1,884,845
South Carolina	U.S. Treasury Bond	450,000	536,522	492,814
Virginia	U.S. Treasury Bond	200,000	205,312	201,462
Canada	Government of Canada/Provincial	21,256,618	23,680,314	22,217,369
TOTALS		**$ 61,310,618**	**$ 67,433,256**	**$ 63,543,768**

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Exchange is licensed as a multiple-line carrier with the Missouri Department of Insurance under Chapter 379, RSMo (Insurance Other than Life) and is licensed in all states except Alaska and Hawaii. It is also licensed in Washington D. C. and the provinces of Canada.

The Exchange specializes in providing commercial property, casualty and workers' compensation insurance.

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs reviews of these issues and generates a separate market conduct report. The last market conduct report for Lumbermen's Underwriting Alliance was issued by Missouri in 1976.

The Company receives very few complaints. Those few that were received appear to have been handled appropriately.

REINSURANCE

The Company's premiums on a direct written, assumed and ceded basis for the current examination period were as follows:

	2004	2003	2002
Direct Business	$133,111,357	$151,351,443	$137,933,883
Reinsurance Assumed	1,263,031	798,068	1,477,483
Reinsurance Ceded	(31,915,532)	(39,483,690)	(30,957,840)
Net Premiums	$102,458,856	$112,665,821	$108,453,526

The Company's major reinsurance coverage and activity is as follows:

Assumed

The only reinsurance currently assumed by the Company is from mandatory FAIR plans and the National Workers' Compensation Reinsurance Pool. In addition there is run-off reinsurance from an agreement with Universal Underwriters Insurance Company, which was a fronting arrangement for insurance written in New York before Lumbermen's Underwriting Alliance obtained a license in that state. Of the $1,263,031 in assumed premiums for 2004, $968,854 (76.7%) was from the National Workers' Compensation Reinsurance Pool.

Ceded

Towers Perrin acts as a reinsurance intermediary for Lumbermen's Underwriting Alliance, with active participation in the reinsurance program from an experienced staff of company personnel. The reinsurance program at year-end 2004 did not vary much from the program that was in place in prior years. The biggest changes were in the Company's retention on the property per risk contracts and workers' compensation excess of loss contracts. Effective May 9, 2003 the Company's retention on the property per risk contracts decreased from $4 million to $2 million. Effective January 1, 2004, the Company's per risk retention increased from $2 million to $2.5 million. The Company also had a per occurrence retention decrease on the workers' compensation excess of loss contracts from $3 million in 2002 to $1.5 in 2003. The Company's 2004 reinsurance program consists of seven basic treaties with multiple coverage limit layers in each treaty. Participation by the reinsurers in each layer varies.

1. Property per Risk Excess of Loss contracts consist of five layers. The Company retains the first $2.5 million of each loss and then cedes 100% of the next $47.5 in five layers as follows: 1) $1.5 million excess of $2.5million, 2) $2 million excess of $4 million, 3) $6 million excess of $6 million, 4) $18 million excess of $12 million and 5) $20 million excess of $30 million. This reinsurance is placed 62.3545% with underwriters at Lloyd's, 15% with Montpelier Reinsurance Ltd., 10.0312% with Aspen Insurance UK Limited, 6.7368% with Hannover Ruckversicherung, and the remainder in small percentages with five other reinsurers.

2. Property Catastrophe Excess of Loss contracts consist of five layers. The Company retains the first $4 million of each occurrence and then cedes 95% of the next $61million in five layers as follows: 1) $95% of $4 million excess of $4 million, 2) 95% of $10 million excess of $8million, 3) 95% of $12 million excess of $18 million, 4) 95% of $20 million excess of $30 million and 5) effective June 1, 2004, 95% of $15 million excess of

$50 million. This reinsurance is placed among nine reinsurers with the largest single percentage going to underwriters at Lloyd's with 56.5904%.

3. Workers' Compensation reinsurance contracts consisted of five layers. The Company retains the first $1.5 million of each occurrence and then cedes 100% of the next $48.5 million in five layers as follows: 1) $1.5 million each loss occurrence excess of $1.5 million (first layer is with 25% Company participation), 2) $2 million each loss occurrence excess of $3 million, 3) $5 million each loss occurrence excess of $5 million, 4) $10 million each loss occurrence excess of $10 million and 5) $30 million each loss occurrence excess of $20 million. This reinsurance is placed 51.9021% with underwriters at Lloyd's, 16.1289% with Aspen Insurance UK, Limited, 12.8866% with Arch Reinsurance Company, 12.4227% with Hannover Ruckversicherung, and the remainder in small percentages with three other reinsurers.

4. Property Flood & Earthquake Semi-Automatic Facultative contract covers all new and renewal business in Canada excluding mobile equipment and excluding all vehicles. The Company cedes 100% of a $10 million maximum per insured per occurrence, subject to a $50 million aggregate limit. The reinsurer for this coverage is Munich Reinsurance Company of Canada.

5. Terrorism Specific Excess of Loss contract consists of three layers. The Company retains $4 million of each occurrence and then cedes 100% of the next $46 million in three layers as follows: 1) $6 million per loss per location excess of $4 million, 2) $15 million per loss per location excess of $10 million and 3) $25 million per loss per location excess of $25 million. This reinsurance is placed 100% with underwriters at Lloyd's.

6. Equipment Breakdown (US) contract is the domestic equipment breakdown coverage. The business is 100% reinsured, subject to a limit of $50 million on any one accident. The reinsurer for this coverage is The Hartford Steam Boiler Inspection and Insurance Company.

7. Boiler & Machinery (Canada) contract is for machinery coverage in Canada. The business is 100% reinsured, subject to a limit of $50 million on any one accident. The reinsurer for this coverage is The Boiler Inspection and Insurance Company of Canada.

The Company's Umbrella Quota Share Excess of Loss contract and the Casualty Excess of Loss contract are in run-of. However coverage is provided for any occurrence that might arise until the natural expiration of a policy. The last casualty policy expired July 31, 2004.

ACCOUNTS AND RECORDS

The Company's financial statements are audited annually by Ernst and Young LLP. A review was made of the work papers of the last CPA audit. These work papers and reports were used in the course of this examination as deemed appropriate.

The reserves for unpaid losses, and unpaid loss adjustment expenses and related actuarial items are reviewed and certified by Robert F. Conger, FCAS, MAAA, FCIA, an associate of Towers Perrin Tillinghast.

Consulting actuary, Donald P. Skrodenis, ACAS, MAAA, of PricewaterhouseCoopers LLP, was retained by the Missouri Department of Insurance to review the adequacy of losses and other related liabilities.

The Information Systems Examination Specialist with the Missouri Department of Insurance completed an electronic data processing controls audit and concluded that systems controls appear reasonable. However, he concluded that the Company should finish implementing its alternate processing site arrangements covering the client-server environment, which supports the growing property line of business. It also should periodically test its contingency plans, including its alternate site arrangements for all financially significant platforms. Without periodic testing, the plan has diminished value because of the increased likelihood of unforeseen problems.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the workpapers for each individual annual statement item.

ASSETS

	ASSETS	NON-ADMITTED ASSETS	NET ADMITTED ASSETS
Bonds	$ 184,122,064		$ 184,122,064
Common stocks	34,449,132		34,449,132
Cash and short-term investments	27,475,818		27,475,818
Investment income due and accrued	2,777,805		2,777,805
Uncollected premiums and agents' balances in course of collection	8,751,901	49,230	8,702,671
Deferred premiums, agents' balances and installments booked but deferred and not yet due.	52,756,003	11,124	52,744,879
Accrued retrospective premiums	29,163,279	683,490	28,479,789
Amounts recoverable from reinsurers	766,477		766,477
Net deferred tax asset	10,966,863	3,989,775	6,977,088
Guaranty funds receivable or on deposit	1,521,974		1,521,974
Accounts receivable	77,831		77,831
Accounts receivable under deductible policies	4,842,831	592,149	4,250,682
Equities and deposits in pools and associations	104,825	-	104,825
Total	$ 357,776,803	$ 5,325,768	$ 352,451,035

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 144,397,808
Loss adjustment expenses	16,987,543
Other expenses (excluding taxes, licenses and fees)	7,329,248
Taxes, licenses and fees	5,797,045
Current federal and foreign income taxes	1,362,584
Unearned premiums	62,129,494
Ceded reinsurance premiums payable	2,896,333
Amounts withheld or retained by company for account of others	22,524,651
Provision for reinsurance	1,068,716
Miscellaneous payable	200,819
Accrued retrospective return premiums	513,663
Total Liabilities	**$ 265,207,904**
Surplus Notes	20,374,177
Unassigned funds (surplus)	66,868,954
Total Surplus	**$ 87,243,131**
Total Liabilities, Capital and Surplus	**$ 352,451,035**

STATEMENT OF INCOME

Underwriting Income

Premiums Earned		$ 94,178,147
DEDUCTIONS		
Losses incurred	(33,888,572)	
Loss expenses incurred	(11,469,291)	
Other underwriting expenses incurred	(39,826,982)	
Total underwriting deductions	(85,184,845)	
Net underwriting gain (loss)		8,993,302
INVESTMENT INCOME		
Net investment income earned	9,370,431	
Net realized capital gains (losses)	4,579,294	
Net investment gain (loss)		13,949,725
OTHER INCOME		
Net gain (loss) from agents' or premium balances charged off	(3,504)	
Finance and service charges not included in premiums		
Other balances charged off	(950,896)	
Realized foreign exchange	1,847,834	
Total other income		893,434
Net income before dividends and federal income taxes		**23,836,461**
Dividends to policyholders	(837,076)	
Federal and foreign income taxes incurred	(1,416,604)	
Net Income		**$ 21,582,781**
Capital and Surplus Account		
Surplus as regards policyholders, December 31, prior year		65,173,366
Net income (loss)	21,582,781	
Net unrealized capital gains or (losses)	(1,161,704)	
Change in net unrealized foreign exchange capital gains (loss)	697,365	
Change in net deferred income tax	(6,136,013)	
Change in non-admitted assets	7,526,094	
Change in provision for reinsurance	11,242	
Change in surplus notes	(388,045)	
Change in surplus note interest	(61,955)	
Change in surplus as regards policyholders for the year		22,069,765
Surplus as Regards Policyholders at Year End		**$ 87,243,131**

NOTES TO FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

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The Company should finish implementing its alternate processing site arrangements covering the client-server environment, which supports the growing property line of business. It also should periodically test its contingency plans, including its alternate site arrangements for all financially significant platforms.

SUBSEQUENT EVENTS

The Company anticipates a number of claims due to Hurricane Katrina; however the effect to the Company is limited by their retention of $4 million per occurrence.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of U.S. Epperson Underwriting Company during the course of this examination are hereby acknowledged and appreciated. In addition to the undersigned, Richard Stamper, CFE, Tom Cunningham, CPA, CFE, and Andrew T. Balas, AES, CFE, CPA, examiners for the Missouri Department of Insurance participated in this examination. Donald P. Skrodenis, ACAS, MAAA, of PricewaterhouseCoopers LLP reviewed the actuarial assumptions and methods used by the Company in determining losses and related actuarial items.

VERIFICATION

State of Florida)

) ss

County of Palm Beach)

I, Christiana Dugopolski, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.

Christiana Dugopolski
Christiana Dugopolski, CPA, CFE
Audit Manager – St. Louis
Missouri Department of Insurance
Midwestern Zone, NAIC

Sworn to and subscribed before me this 4th day of October, 2005

My commission expires:
May 17, 2008

Valentina Lyon
Notary Public

Valentina Lyon
My Commission DD305005
Expires May 17 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese
Frederick G. Heese, CPA CFE
Audit Manager – Kansas City
Missouri Department of Insurance
Midwestern Zone, NAIC